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Tenth and final progress report on the adoption of the International Public Sector Accounting Standards by the United Nations

Report of the Advisory Committee on the Administrative and Budgetary Questions

I. Introduction and background

1. The Advisory Committee on Administrative and Budgetary Questions considered the tenth and final progress report of the Secretary-General on the adoption of the International Public Sector Accounting Standards (IPSAS) by the United Nations (A/72/213). During its consideration of the report, the Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses dated 26 September 2017.

2. The Advisory Committee recalls that the General Assembly, in its resolution 60/283, approved the adoption of IPSAS by the United Nations. The Committee also recalls that, since 2008, the Secretary-General has submitted annual progress reports on the adoption of IPSAS to the Assembly. In his tenth and final progress report, the Secretary-General provides an update on the ongoing activities identified as central to the long-term sustainability of IPSAS compliance. The Secretary-General notes that all 24 organizations of the United Nations system[1] have successfully completed

[1] The following 24 organizations of the United Nations system have adopted IPSAS: in 2008, World Food Programme; in 2010, International Civil Aviation Organization, International Maritime Organization, International Telecommunications Union, Pan American Health Organization, United Nations Educational, Scientific and Cultural Organization, United Nations Industrial Development Organization, World Intellectual Property Organization and World Meteorological Organization; in 2011, International Atomic Energy Agency, Universal Postal Union; in 2012, International Labour Organization, Joint United Nations Programme on HIV/AIDS, Office of the United Nations High Commissioner for Refugees, United Nations Children's Fund, United Nations Development Programme, United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), United Nations Office for Project Services, United Nations Population Fund, United Nations Relief and Works Agency for Palestine Refugees in the Near East and World Health Organization; in 2014, Food and Agriculture Organization of the United Nations, United Nations and World Tourism Organization.

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their implementation of IPSAS. **The Committee notes that the IPSAS project is among the success stories of the transformational projects of the United Nations and commends the efforts of the Secretary-General to complete its implementation.**

II. Sustaining compliance with the International Public Sector Accounting Standards at the United Nations

3. In section II of his report, the Secretary-General discusses the governance and oversight functions of the project, the management of identified risks and the progress made under the five pillars of IPSAS sustainability. As indicated in paragraph 18 of the report, the five pillars of IPSAS sustainability are the management of IPSAS benefits; the strengthening of internal controls; the management of the IPSAS regulatory framework; the strengthening of Umoja as the backbone of IPSAS-compliant accounting and reporting; and training and skills development. In section II, the Secretary-General also provides projected expenditures for the year ending on 31 December 2017 and a timeline for the project's phases and major milestones through that period.

Risk management

4. The Secretary-General indicates and outlines his plan to address the three remaining risks for the IPSAS project: insufficient knowledge and documented processes in the area of property management; the transition from multiple legacy systems to Umoja; and the lack, or suboptimal or inaccurate use, of IPSAS information for management decision-making.

Sustainability of IPSAS

5. In paragraphs 18 to 72 of his report, the Secretary-General explains the progress the Organization has made to date on each of the five pillars of IPSAS sustainability. The following are addressed in paragraphs 6 to 16 below: management of IPSAS benefits; strengthening of internal controls; management of the IPSAS regulatory framework; and strengthening of Umoja as the backbone of IPSAS-compliant accounting and reporting.

Management of IPSAS benefits

6. As noted by the Secretary-General in his eighth progress report (A/70/329), the five major benefit categories of the IPSAS project under the benefits management pillar consist of alignment with best practices; improved stewardship of assets and liabilities; availability of more comprehensive information on costs; improved consistency and comparability; and enhanced transparency and accountability. The Advisory Committee was informed upon enquiry that the five major benefit categories identified at the outset of the project had been successfully achieved, with some of them having been mentioned in previous progress reports (e.g., A/60/846/Add.3, para. 15; A/69/367, para. 63; and A/71/226, paras. 20-34).

7. Upon enquiry, the Advisory Committee was informed that the Organization had gained significant momentum in updating its practices since the adoption of IPSAS, making more information available to management and Member States and monitoring its performance on the basis of new information generated by IPSAS and Umoja. It was further informed that the benefits realization would increase as

IPSAS information and the greater availability of real-time information in financial statements continued to be used for management decisions. **The Advisory Committee encourages the Secretariat to further utilize information generated by IPSAS at all levels of management, in order to better inform decision-making. Furthermore, the Committee encourages the Secretary-General to identify possible ways in which Member States can benefit from the improved data produced by IPSAS.**

8. In his report, the Secretary-General also presents further information on the benefits attributable to IPSAS, specifically on: better management of property, plant and equipment; better inventory management; enhanced awareness of existing intangible assets; timely recognition of revenue and better management of receivables; better measurement of accounts receivable; disclosure of financial instruments; improved reporting of liabilities; integration of a comparison of budget and actual amounts into financial statements; and the conclusion of benefits realization. The Advisory Committee was further informed upon enquiry that the Organization's processes in asset management, the monitoring of accrued after-service health insurance liabilities and the tracking of unliquidated obligations/commitments and receivables had significantly improved following IPSAS implementation.

9. The Advisory Committee recalled its earlier recommendation that reporting on such improvements should include concrete examples supported by quantitative measurements. The Committee also noted that the information provided should be clear as to the improvements attributable to the Umoja-related system and those attributable to the adoption of IPSAS (A/71/542, para. 6). **The Advisory Committee notes that this data was not reflected in the tenth and final report of the Secretary-General on IPSAS. The Committee recommends that the General Assembly request the Secretary-General to provide quantifiable and distinct Umoja or IPSAS-related benefits in the relevant future reports of the Secretary-General.**

Strengthening of internal controls

10. In paragraph 38 of his report, the Secretary-General notes that the Organization's internal control approach is based on an organization-wide assurance process supporting the issuance of a statement of internal control. He also notes that the process will require annual assurance statements from all departments, offices and missions affirming that internal controls are present and functioning in their respective areas.

11. The Secretary-General indicates that, in order to develop the Organization's internal control framework, the principles and requirements of the Committee of Sponsoring Organizations of the Treadway Commission framework have been adapted to the United Nations organizational context, to allow for a structured and harmonized way to assess internal controls organization-wide against the internal control objectives. He also indicates, in paragraph 42 of the report, that the mapping exercise used to adapt the framework was informed by the most recent and current audit findings of the Office of Internal Oversight Services and of the Board of Auditors. He notes that a small and independent advisory group on internal controls that included both academic experts and practitioners had been set up to provide advice on the technical aspects of the application of the conceptual framework at the United Nations. The Secretary-General further indicates that the change management aspect of introducing a new process based on an international best practice framework is more challenging than initially expected, as it introduces new concepts, terminology and processes, all of which require increased communication and training efforts to make the initiative a success.

12. In paragraph 45 of his report, the Secretary-General indicates that communication and training efforts will be paramount to support the roll-out of the internal controls process and will have to be undertaken at various levels of management. The Advisory Committee notes the efforts made by the Organization to ensure the provision of training and skills development to promote IPSAS sustainability, including specialized training on IPSAS standards and awareness training on IPSAS benefits realization. **The Advisory Committee encourages the Secretariat to ensure that internal control processes based on the Committee of Sponsoring Organizations of the Treadway Commission model are well understood at all levels of management.**

13. In his ninth progress report, the Secretary-General indicates that a pilot exercise to test the assurance process had been planned in selected peacekeeping missions for late 2016, with its results factored into the assurance process to be rolled out to peacekeeping operations early in 2017 and to non-peacekeeping reporting entities in the fourth quarter of 2017 (A/71/226, para. 39). In his tenth and final progress report, the Secretary-General notes the six-month delay compared with the original plans for the preparation of the statement of internal control and that a series of workshops will be conducted in 2017 with peacekeeping and non-peacekeeping entities in order, inter alia, to further train participants on concepts and approaches, identify the right mix of cost controls and refine internal controls and possible required assurances (A/72/213, paras. 40 and 50). On this basis, the Secretary-General indicates that the estimated timelines for the implementation of a statement of internal control have shifted to the financial year 2017/18 for peacekeeping entities and to 2018 for non-peacekeeping entities. **The Advisory Committee recalls its earlier recommendation, in which it had requested the Secretary-General to include, in his tenth and final progress report, information on the results of the pilot exercise to test the assurance process, which had been planned for 2016, as well as a copy of the statement of internal control (A/71/542, para. 11), and regrets the delay.**

14. Upon enquiry, the Advisory Committee was informed that the introduction of a statement of internal control and the envisaged management reforms of the Secretary-General were closely interlinked. The Committee was also informed of some of the potential changes that might impact the internal controls, such as the delegation of authority in the human resources, finance or procurement areas; a possible new global service delivery model; and further roll-out of additional Umoja functionality. The Committee was further informed that the small and independent advisory group on internal controls would meet up to six times until 30 June 2018 in order to ensure the best possible technical implementation of the framework and a future statement on internal control in the United Nations. **On the basis of the new timeline proposed by the Secretary-General, the Advisory Committee recommends that the General Assembly request the Secretary-General to include further information on the implementation of the internal control framework, including the provisional statement on internal control in the relevant future reports of the Secretary-General.**

Management of the IPSAS regulatory framework

15. In paragraph 53 of his report, the Secretary-General indicates that the IPSAS Board continues to develop new standards as well as to change and update existing standards, and that there are currently six projects that will have an impact on the United Nations, including the potential mandatory recognition of heritage assets. He also notes that the updating of the Standards on financial instruments will have an impact on the United Nations reporting of its cash pool and other financial assets. In

addition, the Secretary-General notes that a review of these changes is expected after the June 2017 meeting of the IPSAS Board.

Strengthening of Umoja as the backbone of IPSAS-compliant accounting and reporting

16. The Secretary-General indicates in paragraph 62 of his report that Umoja continues to serve as the backbone of IPSAS-compliant accounting and reporting and long-term IPSAS sustainability. In paragraph, he notes that the next phase of the automation of financial statements includes disclosure and notes management, which is expected to produce harmonized note disclosures for all of the Secretariat reporting entities that utilize Umoja. **The Advisory Committee takes note of the efforts to automate financial statements and expects that such improvements will enhance and not diminish the current qualitative and quantitative data available in all Secretariat reporting entities.**

Project budget and expenditure as at 30 June 2017

17. In paragraph 74 of his report, the Secretary-General notes that of the project's indicative budget of $27 million, actual expenditure to 30 June 2017 is $26.2 million, excluding $4.2 million in cumulative expenditure under extrabudgetary funds. He also notes that the total estimated expenditure to 31 December 2017 is $26.8 million. Upon enquiry, the Advisory Committee received confirmation that the tenth and final progress report did not contain any request for additional resources.

III. International Public Sector Accounting Standards and the United Nations system

18. In paragraphs 75 to 80 of his report, the Secretary-General addresses IPSAS activities being undertaken by the Task Force on Accounting Standards and efforts to sustain IPSAS compliance and realize its planned benefits. **The Advisory Committee expects that the Organization will continue its system-wide efforts on IPSAS.**

19. The Advisory Committee was informed, upon enquiry, that as part of the approved funding envelope and in line with the Financial Regulations and Rules of the United Nations and the recommendation of the Committee contained in part VIII, section 29B, of document A/72/7, cost recovery would be explored as a means of potential additional funding for IPSAS sustainability activities. **The Advisory Committee reiterates its recommendation that, in principle, given the services provided to the 13 reporting entities by the IPSAS team, the entities should be subject to cost recovery for those services received (A/72/7, part VIII, sect. 29B).**

IV. Action to be taken by the General Assembly

20. **Subject to its comments and recommendations contained in the preceding paragraphs, the Advisory Committee recommends that the General Assembly take note of the tenth and final report of the Secretary-General.**